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Food Processing Ingredients Sector

South Africa's Food-Processing Industry

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Report Highlights:

South Africa's food manufacturing industry continues to offer good potential for US food ingredients. South Africa's food ingredients and processing sector follows trends in the rest of the world. For example, South African consumers expect value added elements to processed foods like added health benefits or perceived "beauty" benefits. Exporters should keep in mind that much advanced food processing technology is far beyond the horizons of even the most richly resourced South African food company. Industry sources comments that in the next three years to 2006, demand for consumer non-durables is likely to increase by 2-3% per year.

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SECTION 1. OVERVIEW OF SOUTH AFRICA

South Africa has a population of 44 million and a GDP of \$126 billion (2003). The Global Competitiveness Report ranks South Africa 25th out of 75 countries and first amongst developing countries in terms of economic development. South Africa rated 22nd for general infrastructure and 16th for financial market sophistication. Because of its isolation during the apartheid years South Africa, unlike most developing countries, was forced to develop a strong technological base.

South Africa has two economies, the first prosperous and largely white, and the second poor and largely black. South African consumers in the middle and upper income levels are demanding healthier, convenient, quality foods, while the majority, the poorer sections of the population still demand staple foods at low prices. The Government's overriding challenge is to bring prosperity to the majority of citizens who remain poor. Despite the inequality of income levels, South Africa's economy is the largest and wealthiest on the African continent, boasting a GDP equal to one-third of Africa's total output, a diverse and sophisticated private sector, and impressive infrastructure and a wide range of valuable mineral resources.

In the past three years South Africa has concluded highly attractive preferential trade agreements with the South African Customs Union (SACU), the European Union (EU), the Southern African Development Council (SADC) countries, and is negotiating other agreements with the United States and MERCOSUR. These agreements open up new market and business opportunities for businesses wanting to invest directly in South Africa or partner with it for other types of business collaboration.

SECTION 2. MARKET SUMMARY

2.1 Overview of South Africa's food processing sector

South Africa's food and beverage industry is a strongly competitive sector producing high quality commodity and niche products for local and international markets. Food production is linked strongly to the agricultural sector and South Africa is generally considered a net exporter. The South African food and beverage industry reflects sophisticated first world consumer demands within the context of a larger third world economy, with consumers in the middle to upper income levels demanding healthier, convenient quality foods and the poorer sections of the population demanding staple foods at low prices. South Africa is also an important entry point into other African markets.

According to the South African Department of Trade and Industry, the agro-food industry (inputs, primary production, processing) contributes approximately \$12.4 billion to South Africa's GDP and employs 451,000 people in the formal sector. Food production is the largest manufacturing industry, forming 15% of the productive sector. The food industry is largely self-sufficient, but imports most of its rice and wheat requirements from the Far East and the United States respectively. South Africa produces a wide variety of crops and has substantial secondary food processing industries. Meat processing is the single largest sub-sector, followed by grain milling and animal feed manufacturing.

Many South African companies have formed associations with international ones, giving South Africa access to the latest technology and expertise. Examples of this are Simba and Frito-Lay (US), Robertson's and Best Foods (US) and NCD Clover and Dannone (France); and a recent joint venture by H.J. Heinz and Pioneer Foods South Africa to form a company, Heinz Foods South Africa (SA). This allows foreign companies penetration into the local market. Food companies are among the largest holders of intellectual property rights

(Unilever, Proctor & Gamble; and Nestle being the top three in South Africa), which involve patented processes, products, equipment, packaging technology and trademarks.

South Africa is a major exporter of foodstuffs, exporting double of what it imports. Fresh fruit and nuts are the largest export (by value), followed by sugar, processed fruit and vegetables, fish products, alcoholic products and cereals and grains. South Africa also produces certain niche market products, such as Rooibos tea, which is being marketed internationally.

South Africa has a well-established beverage industry, which is experiencing considerable growth, particularly in the brewing (beer) and wine sectors. South African Breweries (SAB) dominates the local brewing industry. 70% of SAB's income is derived from beer, with the rest coming from soft drinks and sorghum beer. The wine industry is also relatively large, ranked seventh in world output. A total of 250 cellars operate, producing three times the Australian harvest. The soft drink business is dominated by Cadbury Schweppes, which sells and distributes its products through Amalgamated Beverages Industries, the leading Coca-Cola system bottlers. South Africa exports a large percentage of its alcoholic beverage production as domestic consumption of wine and spirits is ranked fairly low by international standards.

Although there are over 4,000 food production companies, the top ten are responsible for seventy percent of the industry's turnover. Key players are Unifoods/Best Foods (including Robertsons), Nestle, National Brands, Tiger Brands, Premier Foods and Nabisco.

2003 was a hard year for South Africa's food and beverage industry due to the challenges of a mature food industry and flat consumer demand. Industry analysts are optimistic for overall growth in demand for consumer non-durables, in contrast to the flat demand over the past few years. A leading economics consultant believes that in the next three years, to 2006, demand for consumer non-durables will increase by 2-3 percent per year at a gently rising rate. Supplying South African poorer consumers will offer new areas for growth.

Two of South Africa's largest food processing companies, Tiger Brands and National Brands, have confirmed this year that they only want their products to be either the first or the second brands on the shelves and have pulled out of sectors where they cannot achieve this placing. Their absence leaves an opportunity for small and medium companies to grow.

H.J. Heinz, a U.S. based company, and Pioneer Foods South Africa launched a joint venture company, Heinz Foods South Africa (SA). It will utilize Heinz's world-class technology to manufacture products in South Africa. According to the Marketing Director of the company, the company will concentrate on four main segments of the South African food market: ketchup, sauces, and condiments; frozen meals and snacks; quick-serve meals and soups; and tuna and seafood. Heinz's flagship products will now be produced in South Africa – including ketchup, beans and soups. Heinz Foods SA will market products under various brands names, including Today Frozen Foods (formerly a part of Pioneer Foods) John West, Wellington's, and Heinz.

The food-processing sector is driven by a number of factors, including climatic conditions, overall economic growth, private consumption expenditure and the continued deregulation and liberalization of the agricultural sector. There was virtually no growth in the food sector of the Johannesburg Securities Exchange in the year 2003. According to an article on South African consumer trends, one reason for the poor performance of food companies was a change in consumer spending patterns from luxury food items to the lottery, other gambling, and cellular phones.

Milled grain products, the largest food sub-sector, contributes 17% to food processing output. As consumer incomes rise, the demand for maize meal tends to decline in favor of other grains. From 2001 to 2002, production of maize meal declined by 0.79% while crushed corn increased by 11.58%. In that same period wheat based milled products increased 7.45%. The production of maize-based breakfast food increased by 11%.

Almost 80% of total **meat** sales are to private households and 6% goes into the catering and hotel industries. The production of processed meats declined slightly but steadily across the board, except for a slight increase in smoked, not canned ham.

The production of **milk products** has generally declined, with *condensed* milk falling by 15% from 2001 to 2002, powdered milk by 20% and butter by 34%. The dairy industry is under severe attack due to reduced consumer demand, increased competition from smaller processors and lower selling prices. Meanwhile, input costs are increasing and processors are importing more ingredients.

Domestic production of **fish and fish products** remained stable during 2002. Production of canned fish increased 3% from 2001 to 2002, while frozen prepared fish declined by only 1.5% and fishmeal increased by 6%.

Relatively high levels of foreign competition face local **fats and oils** producers. The production of most products remained constant from 2001 to 2002 except for sunflower seed oil that increased by 31%.

Although the production of meat pies and sausage rolls declined, the overall production of **bakery products**, especially sweet biscuits increased by 17%. This trend illustrates a change in consumer spending patterns that especially affects luxury products.

Production of **canned fruits and jams** as well as **canned and frozen vegetables** increased substantially from 2001 to 2002 due to higher demand from local and export markets.

The **beverage industry** comprises three sub-sectors, malt and malt beverages (41%), distilleries and wineries (32%) and soft drinks (27%). Private households account for the largest share of domestic demand and increases have been steady due to increasing income levels and the westernization of consumers. Demand has also moved from sorghum beer to barley beer, but South Africa's liquor industry is also victim of the shifts in consumer spending.

SABMiller is one of the world's largest brewers with a brewing presence in over 40 countries across four continents and a portfolio of strong brands and leading market shares in many of the countries in which it has brewing operations. It captures approximately over 90% of all beer sold in Southern Africa, a market share that has remained consistent for the last 15 years. SAB International has brewing operations in 40 countries. A further 32 independent microbreweries are active in South Africa.

Distell, the new company formed by the merger between Stellenbosch Farmers Winery (SFW) and Distillers Corporation, now controls about 80% of the brandy market, 60% of the wine market and 75% of the market for alcoholic fruit drinks.

Internationally, the wine industry is relatively small, ranking 16th with about 1.5% of global plantings, but production, at seventh position, accounts for 3% of the world production.

South Africa's 2004 wine production is expected to reach a total of about 1.250 million MT and the country's 2004 exports for natural wine are expected to grow by 6.3% from last year. One of South Africa's largest wine and spirits exporters, wines of South Africa (WOSA), expects to sell more of its export quality wines in the domestic markets because of a likely over-supply worldwide.

Coca-Cola dominates the **soft drink** industry and sells and distributes its products mostly (60%) through Amalgamated Beverage Industries (ABI). ABI, which controls about 90% of the market for carbonated soft drinks, reported a drop of 3% in local sales for the 2000-2001 financial year.

The statistical table below shows the latest available data on the total amount of food and beverages manufactured in South Africa:

Product	Unit T=Tons Kl=Kilolitres	2000	2001	2002	2003 (Jan-Aug)
FOOD:					
CANNED AND PREPARED MEATS:					
Bacon	T	8,875	9,334	8,877	5,966
Ham – not tinned:					
Cooked	T	4,291	4,352	4,106	2,448
Smoked	T	771	730	789	499
Meat Loaves and Prawn	T	4,857	4,962	4,774	2,873
Patties	T	11,057	10,896	10,714	6,628
Polony	T	40,572	41,316	38,800	26,545
Sausages – not tinned:					
Vienna type	T	22,563	20,958	20,650	9,112
Pork	T	4,111	4,666	4,546	2,694
Beef	T	1,083	971	966	432
Boerewors	T	1,208	1,197	927	438
Russians	T	9,028	8,680	8,177	5,393
Frankfurters	T	1,163	1,130	1,142	674
Other	T	4,355	4,126	3,641	2,079
Tinned Sausages	T	1,682	-	-	-
Other tinned meat	T	6,144	7,757	6,727	5,158
DAIRY PRODUCTS:					
Butter	T	11,152	12,315	9,737	8,502
Cheese:					
Cheddar	T	30,336	31,960	30,112	17,462
Gouda	T	15,518	14,793	13,687	8,452
Processed cheese and cheese spreads	T	7,050	9,099	9,557	6,401
Condensed milk	T	14,855	14,735	10,979	6,201
Powdered Milk (full cream, low fat, skimmed, etc)	T	36,220	48,317	36,271	23,945
Yoghurt (natural, flavored, fruit, etc)	Kl	46,824	42,798	65,910	48,260
Ice Cream:					
Dairy ice cream (butter fat only)	Kl (Jan-May)*	26,693	31,167	34,800	11,697*
Sorbet (more than 4% vegetable fat)	Kl (Jan-May)*	34,445	29,230	31,491	15,236*
Soft serve (basic mix)	Kl (Jan-Apr)*	13,032	14,057	17,791	5,735*
	Kl	5,625	6,093	7,722	3,305

Water ices	kl	5,403	5,285	5,074	2,923
Milk ices (less than 4% vegetable fat)					
CANNED FRUIT AND VEGETABLES:					
Jams					
Apricot	T	17,042	15,980	16,245	9,629
Peach	T	2,372	1,558	1,890	1,076
Other	T	20,216	18,485	15,341	12,134
Marmalade	T	1,345	1,821	2,424	666
Canned Fruit:					
Apricots	T	25,732	19,883	26,159	-
Peaches	T (Jan-May)*	55,725	61,934	62,396	74,044*
Pears	T (Jan-May)*	14,930	15,127	23,521	22,341*
Fruit Cocktail	T	27,080	24,040	24,695	30,732
Guavas	T	2,123	2,365	2,077	-
Other (e.g., pineapples, fruit salad)	T	37,303	34,444	35,393	20,349
Fruit-Juices and drinks:					
Fruit-juices	kl	217,168	218,908	235,121	150,315
Fruit Squash	kl	34,071	35,642	36,784	21,934
Cordials and Bases	kl	108,327	100,749	128,902	86,110
Canned Vegetables:					
Beans (baked and green)	T	37,805	43,571	35,998	33,838
Other (e.g., green peas, sweet corn)	T	35,819	33,822	32,387	20,392
Chutney and Tomato sauce	T	28,916	27,770	32,703	26,244
Worcester sauce	kl	1,483	1,379	1,729	1,158
Mayonnaise and salad creams	T	27,639	25,883	28,149	16,683
FISH PRODUCTS AND SIMILAR FOODS:					
Canned and Frozen Fish					
Canned fish	T	30,383	35,795	36,895	32,112
Frozen fish (e.g., fish sticks)	T	61,047	62,441	61,431	41,136
Frozen Crayfish	T	-	-	-	-
Fish Products					
Fish Meal	T	108,923	110,559	117,210	89,444
VEGETABLES AND ANIMAL OILS AND FATS:					
Primary Products Produced					
Self-produced edible oils:					
Sunflower seed oil	T	295,056	364,175	478,711	285,583
Maize Germ and other self-produced oils	T	38,194	39,568	36,249	23,691
Oil-seed cake and meal	T	477,587	434,823	462,951	281,960
Primary Products used for Further Processing:					
Sunflower seed oil, other self-produced oils and refined oils used for production of hydrogenated fats	T	299,479	346,746	412,263	275,991
Secondary Products :					
Margarine	T	156,405	169,885	176,920	111,702
Blended table, salad and	T	294,363	292,933	325,245	222,933

cooking oils					
Other Vegetable fats (e.g., for baking and cooking purposes)	T	60,858	37,359	25,204	16,598
GRAIN MILL PRODUCTS:					
Wheaten Products					
Meal and flour products					
Self-raising flour	T	28,141	28,193	31,580	20,736
Cake flour	T	492,710	532,234	577,729	397,246
Bread flour	T	765,966	832,456	882,726	536,509
Brown Bread Meal	T	537,375	519,641	567,551	387,052
Whole-Wheat meal	T	11,693	13,899	10,458	7,643
By-Products					
Bran (including digestive bran)	T	417,456	446,335	461,932	295,712
Mealie Products:					
Mealie meal	1,000 T	2,589	2,789	2,811	1,828
Samp, mealie rice and grits	T	228,830	245,601	229,885	126,628
Crushed mealies – sifted and unsifted	T (Jan-Apr) *	148,218	159,251	177,688	51,335*
Germ Meal and Hominy Chop	T	992,014	1,070,174	1,063,931	697,067
Breakfast Foods	T	36,707	38,297	42,546	31,012
BAKERY PRODUCTS:					
Bread					
White (including super-white)	1,000,000	637	582	616	490
Brown and whole-wheat	1,000,000	675	666	687	528
Biscuits					
Plain	T	19,577	18,190	21,382	13,035
Salty type	T	7,416	11,295	12,746	5,976
Chocolate covered/filled	T	10,340	13,494	17,679	9,220
Meat Pies (single portion type) and sausage rolls	1,000	176,541	194,569	188,275	98,499
Buns and Rolls	1,000	82,179	100,852	106,517	-
SUGAR:					
Sugar					
Refined	1,000 T	1,148	1,096	1,141	764
Golden Brown	1,000 T	309	297	269	111
Raw Sugar					
For refining	1,000 T	804	833	854	442
For export	1,000 T	946	965	1052	390
CHOCOLATES, SUGAR CONFECTIONERY AND COCOA:					
Chocolate and Chocolate confectionery					
Solid chocolate slabs, bars and novelties:					
Quantity	T	12,419	13,963	13,474	7,308
Value	R1,000	432,226	502,202	519,023	341,545
Filled bars and other chocolate counter lines with hard, soft or cereal centers:					
Quantity	T	22,965	25,425	22,864	14,601
Value	R1,000	819,488	924,476	1,016,192	765,762
Chocolate assortments and straight lines					
Quantity	T	6,996	7,184	7,994	4,748

Value	R1,000	373,051	358,495	411,387	278,544
Sugar Confectionery					
Boiled sweets					
Quantity	T	20,744	20,644	20,650	12,125
Value	R1,000	307,645	316,474	330,652	215,015
Toffees and Caramels					
Quantity	T	14,254	14,928	14,885	7,466
Value	R1,000	291,306	329,446	404,955	159,834
Gums, Jellies, pastilles, starch- goods and lozenges					
Quantity	T	23,121	23,861	25,269	16,058
Value	R1,000	460,078	498,061	581,154	454,075
Panned Confectionery					
Quantity	T	4,916	5,730	6,125	3,771
Value	R1,000	151,330	185,518	206,415	160,390
Other sugar confectionery					
Quantity	T	14,008	16,148	17,187	12,687
Value	R1,000	195,779	217,066	236,442	159,800
ROASTED PEANUTS AND OTHER NUTS:					
Groundnuts, roasted	T	13,997	13,971	13,526	7,835
Peanut butter	T	17,062	17,302	18,465	11,578
COFFEE ROASTING, TEA BLENDING:					
Coffee					
Pure	T	3,395	3,650	2,843	1,877
Mixed and mixtures	T	4,831	4,042	4,353	2,408
Instant coffee (pure and mixtures)	T	23,276	22,201	26,365	17,602
Tea – blended and packed for the retail trade	T	22,173	22,737	22,873	13,901
Rooibos tea	T	5,241	6,939	6,907	4,828
FOOD PRODUCTS NOT ELSEWHERE CLASSIFIED:					
Flavoring essences	KI	7,234	6,556	9,961	5,577
Potato chips	T	23,997	25,827	25,322	17,307
Corn chips	T	-	10,182	10,216	5,086
Spices and condiments	T	-	-	-	-
Custard and pudding powder	T	3,921	3,231	3,610	1,701
Jelly powder	T	2,829	2,402	2,955	1,523
Soups (tinned and powdered)	T	-	-	-	-
ANIMAL FEEDS:					
Farm Feed Mixtures					
Cattle and Sheep Feeds					
Cattle finisher feed and winter feed	T	90,315	85,284	76,688	48,996
Complete cattle feed	T	16,095	16,168	9,688	7,532
Dairy Cattle Feeds					
Complete dairy feed	T	174,589	200,125	186,317	109,727
Concentrated dairy meal	T	374,826	396,900	403,560	257,767
Dog and Cat Foods	T	224,511	198,115	209,794	147,575
Poultry Feeds					
Fowl (egg production)					
Growing mash	T	100,302	116,049	118,710	85,742

Developers mash	T	51,900	52,573	66,653	43,751
Laying mash	T	541,879	524,650	531,746	352,068
Other	T	175,054	169,843	173,030	112,549
Fowl (broiler production)					
Starter mash	T	336,700	325,451	342,035	239,613
Finisher mash	T	748,773	773,089	716,936	485,622
Other	T	399,498	378,072	432,149	245,267
Pig Feeds					
Growth meal	T	125,415	138,415	146,796	76,198
Other	T	40,600	40,717	50,222	37,817
BEVERAGES:					
Distilleries and Wineries:					
Finished Products	(Bulk)				
Natural wines, still	kl	177,743	197,087	201,930	144,630
Sparkling wines	kl	8,872	7,567	9,771	5,965
Other Finished Products					
Brandy (finally blended)	kl	18,792	17,524	17,915	10,463
Gin	kl	2,228	3,438	2,999	2,079
Liqueurs	kl	2,135	1,879	2,183	1,920
SOFT DRINKS AND CARBONATED WATER INDUSTRIES:					
Aerated water and soda syphons	1,000 kl	2,076	2,133	2,317	1,470

Source: Statistics South Africa

2.2 Advantages and Challenges for US exporters

Advantages	Challenges
South Africans are developing a taste for western foods and are willing to try new products.	Consumers may need to be educated in preparing and eating products.
The growing retail food industry needs imported food and beverage products.	Already acquired tastes and preferences for traditional locally produced products.
Already established Agroprocessing industry.	While sophisticated for a developing country, much of the latest U.S. technology is far beyond the horizons of even the most richly-resourced SA food companies.
South African importers seek suppliers who can offer reliable and quality products at competitive prices.	Challenges for U.S. suppliers to respond to trade inquiries in a time fashion, also South Africa is a smaller market and may not be able to deal in the volumes that U.S. companies are used to.
South Africa is a gateway for regional markets.	Competition is stiff from other countries and locally produced products.
South African consumers view U.S. products as high quality.	Limited knowledge of retailers and consumers of the variety and quality of U.S. products.
English is one of the 12 official South African languages and virtually everyone is proficient in English.	Companies already have long-standing relationships with European suppliers due to historical trends.

SECTION 3. ROAD MAP FOR MARKET ENTRY

3.1 Entry Strategy

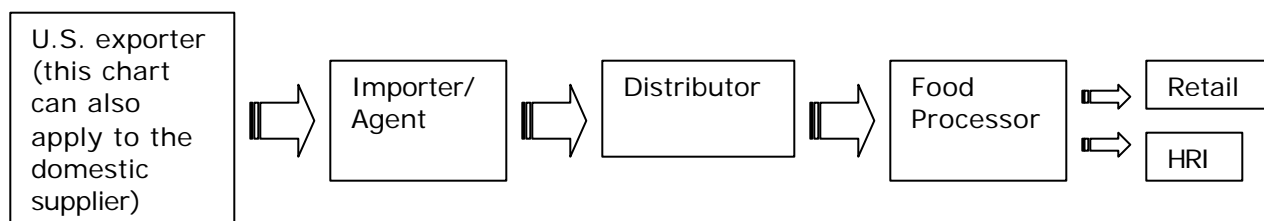
New-to-market U.S. exporters need to fully understand the food processors' demand needs and how best to meet their purchasing requirements and specifications. They should consider the following when planning to enter the market:

- The price competitiveness of U.S. products compared to other major suppliers. South Africa imports food ingredients, additives, and chemicals from all over the world, including Australia, USA, New Zealand, the EU, Argentina and Brazil, as well as having a strong domestic industry.
- The Food Processor's purchasing policy, i.e. whether it buys directly from overseas suppliers or via local importers/agents. It is important to note that some companies prefer to buy through local agents because the local agents are better positioned to deal with any quality problems encountered by the buyer on an immediate basis.
- The financial strength of the targeted food processors, the geographical spread of their target markets, their level of demand for imported food ingredients, the level of their R&D activities and investments into new product introduction and their level of interest in using new ingredients from the USA.

3.2 Market Structure

Distribution channels

This chart gives an overview of the usual distribution channel for imported food ingredients from U.S. exporters to food processors.



Large food processing companies prefer to source their food ingredients directly from overseas suppliers instead of using local agents because they can:

- Benefit from cost savings when buying in bulk from the overseas suppliers.
- Control the quality of the ingredients they obtain

Most South African food processing companies are not “large” in the American sense of the word. They prefer to purchase from local agents because they can:

- Obtain a better service from the local agent who buys large quantities from overseas
- They require small quantities of food ingredients.
- The overseas supplier is not sympathetic about the quality problems encountered by the user. In this case, the local agent, being in-country, is often better able to deal with these problems.

3.3 Company Profiles

The table below provides information on the major food processing companies involved in the sector.

Company (Product types)	Sales (US\$ millions)	End-use Channels	Production Location	Procurement Channels
Nestle (Dairy, juices, fortified food, drinks, sauces, chocolate, soups, coffee, breakfast cereals)	109 (combined Africa, Oceania & Asia figure, further segmentation not available)	Retail and HRI	South Africa (12), Mozambique (1), Zimbabwe (1)	Direct and via agents
South African Breweries (beer, water, wine, spirits, coke)	1,209 (combined Africa & Asia figure, further segmentation not available)	Retail and HRI	Botswana, Malawi, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe)	Direct and via agents
Unilever (processed foods,	45.1	Retail and HRI	South Africa (13)	Direct and via agents
Parlatat (milk, yogurt, ice cream, fruit beverages)	6.83	Retail and HRI	Botswana, Mozambique, South Africa, Swaziland	Direct and via agents
Danone (dairy products, packaged cookies, non-alcoholic beverages)	N/A	Retail and HRI	South Africa	Direct and via agents
Kellogg (breakfast cereal,)	N/A	Retail and HRI	South Africa	Direct and via agents
H.J. Heinz (frozen French fries, pet foods, condiments, vegetable oil, bakers fat, canned foods, margarine)	N/A	Retail and HRI	South Africa (2), Botswana (1), Zimbabwe (1)	Direct and via agents
Pillsbury/General Mills (refrigerated dough products, frozen prepared meals, retail baking mixes, frozen meats, food service preparations)	N/A	Retail and HRI	South Africa	Direct and via agents
Cadbury-Schweppes	N/A	Retail and HRI	South Africa	Direct and via

(chewing gum, chocolate, confections)				agents
McCain Foods (frozen potato products, vegetables, pizzas and desserts)	N/A	Retail and HRI	South Africa (4)	Direct
Coca-Cola (soft drinks)	6.01 (Southern and East Africa)	Retail and HRI	Angola (1) Lesotho (1) Mozambique (3) Namibia (1) South Africa(31) Swaziland (1)	Direct
Dole (fruit products)	N/A	Retail and HRI	South Africa (5), Zimbabwe,	Direct
Bokomo (breakfast cereal, convenience frozen foods)	10.8	Retail	South Africa (7)	Direct and via agents
Tiger Brands (Canned & dry pet food, baby food, spices and condiments)	1.67	Retail and HRI	South Africa, Zimbabwe, Botswana	Direct and via agents

3.4 Sector Trends

According to participants at the SA Institute of Food Science and Technology conference, the use of **health ingredients** in many foods and drinks will become increasingly important in the food industry – and regulators will find it difficult to keep up. Marketers will get there first; regulators will arrive later. Such challenges will make this an even more complex industry than in the past.

Leading **flavor** manufacturers concur that South Africans remain cautious in their taste choices. Old favorites reign supreme across all food categories, albeit interspaced with more exotic, up-market options that come and go. Average consumers prefer BBQ, tomato, cheese, strawberry chocolate and banana, and they like it strong and visible. The issue of illegal amounts of colorant used in the lower-end savory snacks industry is cause for concern, with no sign of any industry consensus on the issue, especially among the smaller operators, and this is creating anomalies in the market.

Flavor developers feel food processors are overly risk averse and lack insight into changing demographics and consumer habits. Opportunity and growth, they concur, lie in developing 'cross-over' or fusion products and flavor profiles for the newly empowered black market that wants to keep in touch with traditional roots but aspires to previously unaffordable foods.

SECTION 4. INTERNATIONAL COMPETITION IN THE SECTOR

Agricultural production in South Africa has almost doubled in the past 30 years although production varies from year to year due to erratic weather. South Africa is self sufficient in primary foods with the exception of wheat, oilseeds and rice. South Africa will continue to import these foods to meet its needs in the short term. The following table highlights the key products offered in each category of foods and beverages in 2002.

Product	Import Market Size in 2002 (Millions of South African Rand)	Major Supply Countries in 2002	Reasons for Strengths of Key Supply Countries
Meat and Poultry products	662.1 Beef (42) Pork (104) Lamb (65) Offal (65.8) Poultry Meat (368,317) Dried Meat (7)	Brazil (29%) Australia (19%) Canada (11%) France is major supplies of Pork (65%), Australia Lamb (94%) and Offal (49%), Brazil major supplies of Poultry Meat (52%), and 98% of dried meat comes from Zimbabwe. USA is a minor supplies of 7% of offal, 4% of Poultry meats, and .13% of pork products.	South Africa is a net importer of meat and meat products. Brazil supplies price competitive beef. Australia and Canada products are demanded by the high end food service sector. Opportunities in this sector exist mainly for frozen boneless beef forequarter cuts, turkey, frozen whole chicken, frozen boneless poultry cuts and prepared poultry cuts. In July 2000, South Africa imposed prohibitive anti-dumping duties of U.S. chicken leg quarters, an action that has virtually cut off U.S. chicken meat exports to South Africa.
Fish and Seafood	273 Crustaceans (96) Other Seafood (67) Frozen fish, not fillet (59) Fish fillet (19)	Mozambique (21%) India (10%) Norway (9%) Mozambique supplies 56% of crustaceans, Spain supplies 21% of Other Seafood, Japan supplies 28% of frozen fish, and Argentina supplies 33% of fish fillet. US is a minor supplies of 1.3% of Crustaceans, .20% of Other seafood, 1.75% of Fish Fillet, and 5% of Frozen Fish.	South Africa is a net exporter of fish and seafood products. Imports in this category have been increasing steadily over the past years. Opportunities do exist. The majority of imports are canned tuna, frozen shrimp and prawns, and frozen fillets. Mozambican goods are traded to South Africa free of duty and quotas in terms of the trade agreement.
Dairy products	339,742	France (20%) New Zealand (17%)	South Africa is net exporter of dairy

	Milk & Cream concentrated (144) Cheese and Curd (94) Whey (61)	Switzerland (10%) Switzerland supplies 21% of Milk & Cream, New Zealand supplies 35% of Cheese and Curd, and France supplies 81% of Whey. US is at present a minor supplier of .01% of Milk and Cream, 2% of Cheese & Curd, and .02% of Whey.	products. Opportunities exist for the import of cheese, whey, concentrated milks milk powders, and butter. New Zealand has a 66% share of the cheese market.
Edible Vegetables	309,996 Dried legumes (235) Dried vegetables whole cut (39) Frozen vegetables (24)	China (37%) Canada (14%) Netherlands (10%) China supplies 42% of Legumes, and 28.4% of dried vegetables. US supplies 28.2% of dried vegetables and 5% of legumes.	South Africa is a net importer of dried legumes. Imports jumped from R35 million in 2001 to 309,996 in 2002. Opportunities exist for the import of kidney beans and other dried beans. China supplies price competitive white kidney beans, has 90% of the local market share.
Edible Fruits and Nuts	202,377 Coconuts, Brazil nuts & cashew nuts (64) Other nuts (58) Fruit & nuts temporarily preserved (24)	Italy (11.43%) US (11.42%) Turkey (10%) Italy supplies 85% of fruit and nuts temporarily preserved; US supplies 38% of other nuts and .04% of coconuts, brazils & cashew nuts; Brazil supplies 21% of coconuts, brazil and cashew nuts.	South Africa is a net exporter of dried fruits and a net importer of nuts. However, a small market exists for dried exotic fruits, and opportunities exist for shelled hazelnuts, desiccated coconut, cashew nuts and shelled almonds.
Spices, Coffee, and Tea	517,061 Coffee (192) Tea (171) Spices: - Pepper (45) - Seeds of various spices (42)	Malawi (15%) Zimbabwe (12%) Indonesia (11) Indonesia supplies 24 % coffee; Malawi supplies 43% Tea; and on the spices	South Africa is a net importer of spices. Local coffee and tea production is insufficient to meet local demand. In terms of the bilateral trade

	<ul style="list-style-type: none"> - Other spices (34) - Cloves (13) - Nutmeg (13) 	<p>India supplies 46% seed of various spices, 54% of other spices and 37% Nutmeg; Singapore supplies 17% Pepper and 47% Cloves.</p> <p>US supplies 0.33% Tea, 0.36% Pepper, 1.18% Other Spices and insignificant amount of coffee, seed of various spices, cloves and nutmeg.</p>	<p>agreements all goods of Malawi origin enter South Africa duty-free.</p>
Prepared Meat, Fish, etc	<p>228,127</p> <p>Fish and Caviar (170) Crustaceans (49) Meat Offal (7)</p>	<p>Philippines (32.4%) Thailand (32%)</p> <p>Philippines supplies 43% fish and caviar; India supplies 41% Crustaceans; and Zimbabwe supplies 58% of Meat offal.</p> <p>US is a minor supplier 2% fish caviar, and is non significant in crustaceans and meat offal.</p>	<p>India supplies price competitive Shrimps and Prawns. Philippines and Thailand supplies tuna.</p>
Beverages	<p>1,006,622</p> <p>Spirit Beverages (742) Non alcoholic beverages (119) Wine of Fresh grapes (80) Undenatured alcohol (28)</p>	<p>UK (52%) Austria (9%) US (5%)</p> <p>UK supplies 69% spirit beverages, Austria supplies 71% non alcoholic beverages, Argentina supplies 43% undenatured alcohol; and France supplies 37% wine of fresh grapes.</p> <p>US supplies few products in this category.</p>	<p>South Africa is a net exporter of alcoholic beverages. This market is dominated by well known brands from the UK.</p> <p>Opportunity exists for imports of specialty brand name bourbon and whisky.</p>
Fats and Oils	<p>2,109,479</p> <p>Palm oil (765) Soybean oil (435)</p>	<p>Malaysia (33%) Brazil (17%)</p> <p>US supplies 99% of</p>	<p>South Africa is a net importer of edible fats and oils. Local producers are</p>

	<p>Bovine (141) Coconut (140) Animal/vegetables (128) Margarine edible mix (99) Olive oil (69) Pig poultry (22)</p>	<p>Pig & Poultry fats and oils and is a minor supplies of the rest of the products in this category. Malaysia supplies 60% of Palm oil, coconut, animal/vegetable, and margarine edible mix. Argentina supplies 59% soybean oil, Australia supplies 79% Bovine, and Italy supplies 43% Olive oil.</p>	<p>unable to meet total requirements due to limited crop sizes.</p>
Cocoa	<p>303,193</p> <p>Butter, Fat and Oil (77) Cocoa Beans (65) Cocoa Paste (53) Cocoa Powder (48)</p>	<p>Cote d'Ivoire (34%) Indonesia (17%) US (2%)</p> <p>Cote d'Ivoire supplies 100% of cocoa beans, and 49% of cocoa paste; Indonesia supplies 48% Butter, fat and oil; and Singapore supplies 30% cocoa powder.</p>	<p>Cocoa is not grown in South Africa and thus offers good opportunities for potential exporters.</p>
Baking Related	<p>278</p> <p>Food prep of flour (97) Bread, pastry, cake, etc (78) Pasta, couscous (61) Food prep from cereal (41)</p>	<p>Ireland (21%) Italy (18%) US (2.3%)</p> <p>Italy supplies 67% pasta couscous; Ireland supplies 60% food prep of flour; UK supplies 54% food prep from cereal; and United Arab Emirates supplies 22% bread, pastry, and cakes.</p> <p>US is a minor supplier of all products in this category, but could improve here.</p>	<p>Products in this category are regarded as South African staple food, especially bread, therefore growth is assured. Current trends are in-house bakeries stores in convenience retail stores and hotels.</p>
Sugar	<p>237</p> <p>Other sugars (102) Confection (74) Cane/beet (57) Molasses (4)</p>	<p>Brazil (16%) Zimbabwe (15%) US (7%)</p> <p>Zimbabwe supplies 57% Cane/beet and 44% Molasses; Brazil</p>	<p>South Africa is a net exporter of sugar. The majority of imports are in the category of other sugar products in solid form, such as</p>

		supplies 47% confection and New Zealand supplies 23% other sugars. US is a minor suppliers of all products except molasses.	cane and beet sugar.
Preserved Food	156 Prep vegetable (45) Fruit & vegetable juice (43) Other fruit nut (33) Tomatoes no vinegar (22)	Italy (17.3%) China (17%) Netherlands (13) Italy supplies 86% of tomatoes without vinegar; China supplies 37% of fruit & vegetable juice; US supplies 24% Other fruit nut and is minor supplies of all products in this category; and Netherlands supplies 12% Prep. Vegetables.	Italy supplies price competitive products.
Food Waste, Animal Feed	1,398,241 Soybean residue (946) Animal feed prep. (228) Other solid residue (100) Bran (38)	Argentina (71%) US (4%) Argentina supplies 94% soybean residues and 36% of other solid residue; Mozambique supplies 49% Bran, and US supplies 21% Animal feed prep. and is minor supplier of all products in this category.	

SECTION 5. BEST PRODUCT PROSPECTS

An article in the August 2003 "South African Food Review" states that the market for **nutritionally dense dairy foods**, such as milk, yogurt and cheese, has blossomed considerably. Clover Danone, a large dairy manufacture, reports that the market has grown by 22.4 percent in volume and 56.1 percent in value, while Parmalat notes that retailers have increased shelf space to accommodate the explosion of single-serve, flavored milk or drinking yogurt and multipak yogurts.

The South African **ingredients sector** has really felt the pressure from cheaper imports. Their technology lags behind that of more developed countries, making this sector a good opportunity for the right company.

Industry analysts believe there is a niche for products that have added **health and energy benefits**. Consumers are looking for foods with value-added qualities.

Industry sources confided to post that the South African market is ready for convenience foods with a twist, such as little peppers stuffed with cheese, whole-wheat pasta, fancy olives, cheese spreads, ready made tuna salad etc.

SECTION 6. POST CONTACT AND FURTHER INFORMATION

If you have any questions or comments regarding this report or need further assistance, please contact AgPretoria at the following address:

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For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service's website at: <http://www.fas.usda.gov>

The web page of the South African Association for Food Science and Technology has some informative papers and information on South African food legislation.

<http://www.saafost.org.za>

Post acknowledges the following sources: Industry websites such as World Trade Atlas, Statistics South Africa, The Department of Trade and Industry, local foodservice industry publications, and individual company websites.